



# FINAL REPORT

## School Finance Formula Review Committee

January 2005

### MEMBERS

Senator Nancy Boettger, Co-chairperson  
Senator Bob Brunkhorst  
Senator Michael Connolly  
Senator Keith Kreiman  
Senator Doug Shull

Representative Jodi Tymeson, Co-chairperson  
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### AUTHORIZATION AND APPOINTMENT

The Legislative Council established the School Finance Formula Review Committee and authorized three meeting days. The Committee was charged to prepare a school finance formula status report and provide recommendations in accordance with the requirements of Iowa Code section 257.1(4), including receiving assistance from the departments of Education, Management, and Revenue; providing recommendations for school finance formula changes or revisions based upon demographic changes, enrollment trends, and property tax valuation fluctuations observed during the preceding five-year interval; providing an analysis of the operation of the school finance formula during the preceding five-year interval; and incorporating a summary of issues that have arisen since the previous review and potential approaches for their resolution.



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### **I. August 24, 2004, Meeting.**

#### **A. School Finance Formula Review—Department of Education.**

Dr. Lee Tack, Administrator, Financial and Information Services Division, Iowa Department of Education, provided a comprehensive review of the operation of the school finance formula in Iowa. Dr. Tack identified several goals and principles governing the operation of the formula, including equity in expenditures, property tax relief, uniform aid allocation, predictability, simplicity, pupil-driven operation, local discretion, the establishment of maximum spending controls, and adequacy of funding, and noted that they sometimes operate in conflict with each other. He also noted that equity in expenditures has historically received emphasis, but that adequacy of expenditures has surfaced more recently as a focus area, both locally and at the national level.

Dr. Tack reviewed the components of combined district cost, including regular district cost, the budget guarantee and the impact of its gradual phaseout, the various forms of supplementary weighting, and special education and area education agency funding. Levies as an additional funding source were also discussed, including the instructional support levy, management levy, physical plant and equipment levy, and debt service levy. The operation of the local option sales tax for school infrastructure was summarized, along with the impact of recent legislative changes on the status of litigation regarding the tax. The operation of the School Budget Review Committee (SBRC) was summarized. State and federal categorical sources of funding were reviewed. Sources of revenue were examined, with Dr. Tack explaining the operation of the uniform levy, state foundation aid, and the additional levy.

Committee discussion included an explanation that a designated percentage increase in allowable growth does not necessarily translate into an equivalent percentage increase in a school district's budget, because the impact of the budget guarantee phase-out and declining enrollment needs to be taken into account. The history of the budget guarantee was discussed, along with the fact that increasingly large guarantees as a proportion of certain school districts' budgets raised equity concerns. The Department of Education was requested to provide more detailed information regarding the impact of the budget guarantee phase-out over time. The impact of a school district's property tax valuation rate on the amount of state aid received was considered, and the impact of increasing the foundation level to 100 percent state aid was outlined.

#### **B. Recent Trends.**

Several trends impacting the operation of the formula were identified. Declining enrollment is anticipated to continue for a long period of time, based on significantly lower numbers of students entering kindergarten in comparison to the number of high school seniors. It was noted that the percentage of students who can be classified as English language learners is increasing, the percentage of state general fund appropriations dedicated to education can be seen as increasing in the face of an overall decline in appropriations, and the percentage of property taxes going toward education is relatively stable. Also, the number of districts seeking dropout and dropout prevention funding is increasing and the districts are asking for increasingly higher amounts of such funding. A wide fluctuation exists in the amount per pupil school districts are expending for transportation. Property tax valuations decreased last year after several years of increases. The impact of establishing a relatively low allowable growth amount on adequacy of funding was mentioned, as was incorporating certain categorical funding sources or levies into the formula.



### **C. Department of Management.**

Ms. Lisa Oakley, Department of Management, provided an overview of the role and responsibilities of the department relating to school finance and the annual school budget and tax certification process, including the provision of forms, instructions, and technical assistance relating to budget estimates; certification of property tax levies; and performance of specified statutory school finance formula calculations.

### **D. Discussion.**

Potential topics identified by committee members for discussion at upcoming meetings included transportation funding; the number of levies, elimination of outdated levies, and incorporation of levies into the formula; property tax valuation and relief issues; the statutorily established date by which allowable growth must be determined; partnering with community colleges and promoting more of a seamless system; coping with the impact of declining enrollment and the budget guarantee phase-out; obtaining the perspectives of various organizations and school district personnel regarding the operation of the formula; and the development of models by the Department of Education relating to incorporation of categorical funding sources and specified levies into the formula.

## **II. November 23, 2004, Meeting.**

### **A. Community College Sharing Programs.**

Dr. L. Gene Gardner, Executive Director of the Iowa Association of Community College Trustees and the Iowa Association of Community College Presidents, discussed the variety of sharing programs being undertaken between kindergarten through grade 12 school districts and community colleges. Dr. Michael C. Morrison, President of the North Iowa Area Community College (NIACC), distributed a progress report focusing on evolving into a more seamless delivery system for students who are between the senior year of high school and postsecondary education. The report concludes that postsecondary enrollment option (PSEO) students are academically capable and enter courses with higher ability levels than traditional college students, quality control studies involving the assessment of student outcomes for regional academy and PSEO courses versus traditional courses were equal, and that tech prep programs offer a number of advantages for high school students and allow the state to recover cost savings in state general aid.

Dr. Morrison and Dr. Gardner advocated several recommendations relating to community college and high school partnerships, including increasing state general aid, providing greater flexibility in raising operating funds in local districts, providing a sustainable technical education revenue source, and reinstating funding for instructional program equipment. It was also recommended that supplemental weighting for sharing programs be protected and the restriction prohibiting supplemental weighting for Iowa Communications Network or Internet educational programming be removed, that restrictive language relating to similarly named courses offered by both a high school and as a postsecondary course be eliminated, that school districts be held to a requirement that they report efforts to publicize the existence of PSEO courses, that vocational-technical education grants be increased, that community college entrepreneurship centers be developed across the community college system, and that recommendations by the Iowa Learns Council relating to postsecondary education opportunities be implemented.



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Dr. Tack provided information relating to the types of supplementary weighting available for sharing programs, how supplementary weighting is calculated and how much funding it generates, and how supplementary weighting can be distinguished from postsecondary enrollment options courses.

Committee discussion included the extent to which other community colleges are replicating NIACC's approach, increasing student participation levels prior to an increased funding commitment, encouraging private sector partnerships, and the impact of rising tuition levels and the extent of local funding commitments.

### **B. School Budget Review Committee.**

Ms. Judy Jeffrey, Executive Director of the Iowa Department of Education, accompanied by Mr. Dennis Dykstra, Administrative Consultant, Iowa Department of Education, and Dr. Tack, summarized the statutory basis for and authority of the SBRC and how special education rates are established. Committee members discussed the concern that SBRC assistance in the form of authorizing additional allowable growth can create a disincentive on the part of low-property-tax-valuation districts to make needed requests, leading to a disparity in comparison to high-property-tax-valuation districts.

### **C. Property Tax Valuation.**

Mr. Dick Stradley, Property Tax Administrator, Iowa Department of Revenue, provided an overview of the property tax valuation methodology used in the state. Mr. Stradley summarized the amount of revenue generated through property taxes, the breakdown in distribution of the revenue, and the primary sources for revenue generation. He also summarized the development and calculation of the productivity assessment method for agricultural realty, discussed the impact of increasing the uniform levy, and described the effect of opening or closing a large industrial operation on property tax valuation levels as an example of districts which may be transformed from low- to high-property-tax-valuation districts, or from high- to low-property-tax-valuation districts.

### **D. Transportation.**

Dr. Tack, accompanied by Mr. Max Christensen, Executive Officer for Transportation, Iowa Department of Education, related information regarding overall state transportation costs and the wide degree of variation in per pupil costs across school districts. Dr. Tack reported that the total cost of transporting students to and from school based upon a FY 2002-2003 report was approximately \$89 million, with a range from approximately \$1 per student enrolled to approximately \$618 per student enrolled. Mr. Christensen indicated that districts have flexibility regarding vehicle utilization for transportation purposes, and that some districts operate in cooperation with municipal or regional transit authorities. Committee discussion included the options of state aid covering a specified percentage of transportation costs above the state average and providing a designated amount of financial assistance to school districts, approaches being utilized in other states, and the extent to which excessive transportation costs impact educational adequacy arguments.



### **E. Dropout and Dropout Prevention Programs.**

Mr. Ray Morley, Bureau of Instructional Services, Iowa Department of Education, and Dr. Lee Tack discussed dropout and dropout prevention from both a funding and programmatic standpoint. Dr. Tack presented modified allowable growth figures for the program for FY 2004-2005, and distributed a graph depicting the number of school districts receiving program dollars broken down by district enrollment size. It was observed that, in general, larger-sized school districts more frequently apply to the SBRC; that the program operates on a 75 percent allowable growth, 25 percent local effort basis; and that dropout and dropout prevention programs are growing. Mr. Morley summarized the statutory basis for the programs, program requirements, integration of the requirements into the comprehensive school improvement process, and the local review process for at-risk students. Committee discussion included calculation of the average dropout rate each year and availability of programs in low property-tax-valuation districts.

### **III. December 16, 2004, Meeting.**

#### **A. Options for School Finance Formula Changes.**

During the Committee's second meeting, Dr. Tack was invited to prepare options for school finance formula changes for the Committee's consideration. The options included the following topics: increasing foundation level/increasing uniform levy, English language learners (ELL), additional funding for transportation, the Instructional Support Program, additional dropout/dropout prevention funding to the school foundation aid formula, and elimination or reduction of the special education deficit. The packet of information Dr. Tack distributed to members listed the options, contained spreadsheets demonstrating the effect implementation of the options would have on the state's school districts, and included information on the planned use of modified allowable growth funds as reported by districts to the School Budget Review Committee and a record of the funds generated through supplemental weighting based upon students in grades 9-12. In response to questions, Dr. Tack provided more detailed information.

#### **B. English Language Learners.**

On average, school districts that have ELL programs only generate approximately 50 percent of the funds needed to pay for the programs. The students populating ELL programs are changing – students are arriving in the school districts at ages 8, 10, or even 12 with no educational experience. These students often remain in ELL programs longer than the three years during which they qualify for additional weighting. School districts would like a longer period of student eligibility. Less than half of Iowa's school districts seek authorization for additional allowable growth from the SBRC, but those that do have significant costs.

#### **C. Transportation.**

Dr. Tack reiterated that because transportation funding often comes at the expense of a school district's educational program, school districts have already done a great deal to economize and increase efficiencies, including using the appropriately sized bus for a route. A number of school districts use private providers, resulting in fewer headaches, but not necessarily savings. The General Assembly once allocated funding to the SBRC for distribution to school districts paying



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transportation costs over the statewide average. However, the SBRC could not settle on an evaluation measure that would ensure an equitable distribution and ultimately returned the funding.

### **D. Dropout/Dropout Prevention.**

A correlation exists between poverty levels and dropout rates. However, though the per pupil amount for dropout and dropout prevention programs is arrived at using figures generated by the number of students qualifying for free and reduced price meals in grades one through six, the moneys are used by school districts to help the students who need the programs, not just those students who qualify for free and reduced price meals. The SBRC bases its decisions on recommendations submitted by the department, which reviews program budgets and determines an approved level of funding based on a formula and the program needs, not on the poverty rate. To base funding on the number of students served by a program would penalize successful programs.

### **E. Special Education.**

The special education deficits are not necessarily higher in poor districts. Often, the deficits are tied to the highly qualified and experienced staffs, which are better able to identify special education needs. Special education funding prior to the late 1980s was provided “on-time,” or in the year in which the students were counted. The deficit materialized when the formula moved from an “on-time” basis to one in which the student is counted in one year, and funding generated by that count is provided to the school district in the following year. The lower the percentage set for allowable growth, the higher the deficits. Identification of a student as a child requiring special education is an elaborate process that involves families, district personnel, and area education agencies. Dr. Tack indicated that in his experience, a student is identified based upon the student’s needs, not on the school district’s need for the additional weighting such a student generates.

## **IV. Recommendations.**

The Committee unanimously approved the following recommendations:

- a. Increase the foundation level to 100 percent over the next seven years – consider tax increment financing (TIF) reform and adjusting the uniform levy.
- b. Phase out, or require voter approval every 10 years for, seldom used levies.
- c. Require the Department of Management to facilitate a dialogue to resolve TIF issues.
- d. Provide state funding of up to 50 percent of district costs that exceed the statewide transportation average.
- e. Remove barriers for partnerships between secondary and postsecondary institutions to increase opportunities for students (including barriers for usage of the Iowa Communications Network), and require school districts to publicize the Postsecondary Enrollment Options Act (Iowa Code Chapter 261C).
- f. Increase the state aid amount under the Instructional Support Program over multiple years, eventually building the amount into the school aid formula.

## **V. Materials Distributed to the Committee.**

### **A. August 24, 2004, Meeting.**



1. School Finance in Iowa, provided by Dr. Lee Tack.
2. Financing Public Elementary and Secondary Education in Iowa, Iowa Department of Education, August 2004, prepared by Dr. Lee Tack.
3. FY 2004 School District Funding Sources and Amounts, Iowa Department of Education, provided by Dr. Lee Tack.
4. Total Regular Program District Cost Comparison — FY 2004 Through FY 2006, Iowa Department of Education, provided by Dr. Lee Tack.
5. Overview of Department of Management's Role, provided by Ms. Lisa Oakley.

### **B. November 23, 2004, Meeting.**

1. Second Meeting Agenda and Supporting Materials, submitted by Mr. Richard Nelson.
2. Community College and High School Partnerships.
3. Recommendations, provided by Dr. L. Gene Gardner and Dr. Michael C. Morrison.
4. Progress Report: An Evolutionary Path Toward a More Seamless Delivery System/Making the Senior Year Count, A Focus on Outcomes, prepared by Dr. Michael C. Morrison.
5. A folder provided by Dr. Lee Tack containing the following:
  - Supplementary Weighting
  - Course Areas — Community College Supplementary Weighting
  - Community College Supplementary Weighting by Enrollment
  - Supplementary Weighting: Alpha Order
  - Supplementary Weighting: Rank Order
  - September 2003 Supplementary Weighting by Community College
  - Introduction to the School Budget Review Committee (SBRC). Who Is the School Budget Review Committee (SBRC)?
  - SBRC Modified Allowable Growth for Dropout Prevention Program
  - SBRC Modified Allowable Growth for the Dropout Prevention Program — FY 2005
  - Dropout/Dropout Prevention Modified Allowable Growth 2004-2005 (two pages: one beginning with number of districts and second with enrollment)
6. School Budget Review Committee (SBRC) – Duties in Regard to Special Education, distributed by Ms. Judy Jeffrey and Mr. Dennis Dykstra.
7. Generating Headcounts and Weightedness by Levels, distributed by Mr. Dennis Dykstra.
8. Programs for Returning Dropouts and Dropout Prevention, provided by Mr. Ray Morley.
9. Iowa Alternative Schools Serving Returning Dropouts and Other Students — August 13, 2003, provided by Mr. Ray Morley.



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10. Flowchart Depicting Student Learner Progress Through a Learning Alternative to Achieve Learner Goals/High School Education, provided by Mr. Ray Morley.
11. Iowa Success Stories of Alternative Schools and Students: April 2004, prepared by the Iowa Association of Alternative Education, provided by Mr. Ray Morley.
12. Iowa Property Tax, prepared by Mr. Dick Stradley.
13. Average Transportation Cost Per Student Enrolled, provided by Dr. Lee Tack.
14. Transporting Students to and From School 2002-03 Annual Transportation Report, provided by Dr. Lee Tack.
15. District Cost Per Pupil/District Cost Per Pupil Minus Transportation Cost per Pupil, provided by Dr. Lee Tack.
16. District Cost Per Pupil Less Transportation Cost: Alpha Order, provided by Dr. Lee Tack.
17. District Cost Per Pupil Less Transportation Cost: Rank Order, provided by Dr. Lee Tack.
18. Transportation Funding Options: Alpha Order, provided by Dr. Lee Tack.
19. Transportation Funding Options: Rank Order, provided by Dr. Lee Tack.

### **C. December 16, 2004, Meeting.**

1. Memorandum, prepared by Mr. Richard Nelson.
2. Finance Formula Recommendations, submitted by the area education agencies.
3. IASBO Report and Proposed Recommendations, submitted by the Iowa Association of School Business Officials.
4. Written testimony, submitted by the Iowa Association of School Boards.
5. School Funding Formula Recommendations, submitted by the Urban Education Network.
6. Written testimony, submitted by the Iowa State Education Association.
7. Options submitted by Dr. Lee Tack:
  - a. Option 1: Increasing Foundation Level & Uniform Levy.
  - b. Option 2: English Language Learners.
  - c. Option 3: Additional Funding for Transportation.
  - d. Option 4: Instructional Support Program.
  - e. Option 5: Additional Dropout/Dropout Prevention Funding to the School Foundation Aid Formula.
  - f. Option 6: Eliminate/Reduce Special Education Deficit.
  - g. Planned Use of Modified Allowable Growth Funds as Reported by Districts.